

Oregon Affordable Housing Tax Credit Program 2022



OAHTC Program Manual

Contacts

Martin Jarvis
State Tax Credits Program Analyst
(503) 986-6731



Acknowledgements

Oregon Housing and Community Services
Andrea Bell, Executive Director

Introduction

The purpose of the Oregon Affordable Housing Tax Credit (OAHTC) program is to create and protect affordable housing. This program accomplishes that purpose by providing a method to reduce tenant rents to allow for more affordability and to incentivize the preservation of affordable housing. OAHTC provides a tax credit to financial institutions who utilize this credit to reduce the interest rates on loans to affordable housing projects. Under the OAHTC program, the department certifies loans to qualified borrowers as eligible for OAHTC.

Program Statutory and Rule Authority:

ORS 317.097

OAR chapter 813, division 110

Program Requirements

The Oregon tax credits available under this program are limited. The following program requirements are necessary to obtain the most impact possible from this limited resource.

A. ANNUAL CAP

The legislature has set the maximum allowable OAHTC per year at \$35 million. OHCS cannot exceed this amount in annual allowable OAHTC allocations. This is a cap on the overall issuable tax credits per year. The cap is cumulative and if it is reached, OHCS will pause certifying new loans until after lenders have expended enough credits to drop below the cap.

B. INTEREST RATE REDUCTION

The OAHTC program allows for an up to 4% reduction in the interest rate a qualified lender may offer to a borrower in exchange for the tax credit. The lender will decide the actual reduction in the interest rate, up to the statutory limit of 4%. The borrower may select the lending institution that provides the most competitive rate reduction. OHCS does not mandate an interest rate floor. OHCS will allow up to a 4% reduction regardless of if the reduced rate will result in an interest rate below 1%.

C. AVAILABILITY OF FUNDS

OAHTC is most frequently included with other OHCS funds when project sponsors have a permanent loan included in their funding stack. When included with other funding sources from OHCS, the use of the OAHTC must also meet the minimum requirements of those programs and the General Policy and Guideline Manual (GPGM). OAHTC are available as listed below:

- OAHTC is commonly paired with other OHCS resources such as LIHTC, GHAP, HDGP, LIFT and OHCS-issued pass-through revenue bonds.
- OAHTC can be paired with 4% LIHTC and Private Activity Bonds.
- OAHTC is available as a standalone funding source through the OAHTC Pool Application.

D. RENT REDUCTION (PASS-THROUGH)

The tax credits provided by this program are intended to reduce the interest rates by up to 4% on loans made by lenders with a State of Oregon tax liability to borrowers for approved Projects. The OAHTC interest rate savings must be passed through to the tenants in the form of reduced rents. Preservation projects (see Section E for more information) and manufactured dwelling park projects are exempt from the rent reduction requirement as the OAHTC is considered an incentive to help facilitate these transaction types. The pass-through or rent reduction required with OAHTC new construction is calculated as the difference between the total loan amount at the original interest rate and the total loan amount at the reduced interest rate. This savings must be passed through directly to the tenants in its entirety through a reduction in rent owed. The pass-through does not need to be distributed evenly among the units though this is an option. It is also permissible to target the pass-through to a smaller number of units to create lower AMI units. OHCS encourages each project to consider their community and project needs when determining how to utilize OAHTC incentives.

The estimated annual average per-unit pass-through for the project will be calculated by dividing the annual loan interest savings divided by 12 months and then dividing by the number of restricted affordable units in the project. These are estimates based on an even distribution among all qualified tenants, which, as mentioned above, is not a requirement for pass through.

Rental units covered by any project-based voucher assistance are not eligible to be used to demonstrate pass-through savings for the OAHTC program because the rent reductions related to the OAHTC subsidy typically would not be passed on to the tenants in the form of a rent reduction from what the tenants would otherwise pay, and therefore, would not achieve pass-through savings. Projects that are partially covered with project-based assistance may qualify to use OAHTC on the remaining units by demonstrating pass-through interest savings that result in appropriate rent reductions to the OAHTC qualified tenants in any units not covered by the project-based vouchers.

In satisfying the pass-through requirement, project owners may not assign any of the per-unit pass through to units whose qualified tenants are employing a tenant-based section 8 voucher.

Reduced tenant rents are a project-specific requirement based on the credits taken by the lender. The amortization of interest in the loan taken by the bank will vary each year. The reduction to tenants' rents will be averaged over the lesser of the term of the loan or twenty (20) years to provide the same tenant reduction to rent each year by the owner/borrower.

E. EXCEPTIONS

Projects defined as **Preservation Projects** are not required to provide rent reduction pass-through. A Preservation Project is defined as housing that was previously developed as affordable housing with a contract for rental assistance from the United States Department of Housing and Urban Development (HUD) or the United States Department of Agriculture (USDA) and that is being acquired by a sponsoring entity (as defined in ORS 317.097). The contract for project-based rental assistance must cover at least twenty-five percent (25%) of all units in the Project and must be at risk of expiring within the next seven (7) years.

Projects defined as **Manufactured Dwelling Park Projects** are not required to provide rent reduction pass-through. The borrower for Manufactured Dwelling Park Project must be a nonprofit corporation, manufactured dwelling nonprofit cooperative, a state or local government agency, or a housing authority.

F. AFFORDABILITY RESTRICTIONS AND OTHER FUNDING REQUIREMENTS

Except for Manufactured Dwelling Park Projects, affordability restrictions for projects that only include OAHTC must be set at less than 80% Area Median Income (AMI). Projects with rent assistance or other financing resources from the United States Department of Agriculture Rural Development (USDA RD) and Preservation Projects will be restricted for up to 30 years. All other projects requiring income restrictions will be restricted for up to 20 years.

When paired with other funding sources, if a project requires a rent reduction pass through, OAHTC must be used to lower rents after all other OHCS subsidies and requirements for rents have been applied. For example, if an applicant applies for LIHTC and indicates they are choosing rent restrictions at 60 % of Area Median Income (AMI), the Application must demonstrate the required pass-through is being used to reduce rents below the 60% AMI LIHTC restrictions in 10% AMI increments.

G. INCOME AND EXPENSE PROJECTIONS

The applicant is required to include information on their OAHTC-attached permanent loan in the application pro forma and to show how inclusion of the OAHTC will affect their financial assumptions. The following sheets include cells where applicants seeking OAHTC must fill in information:

- Budget Sources
- Budget Uses

- Rents and Incomes
- Operating Budget
- OAHTC Calculation
- OAHTC Amortization Schedule

Each of these tabs will be discussed in depth in the Pro Forma section of this manual.

H. DEBT COVERAGE RATIO AND CASHFLOW

Applicants using OAHTC must meet OHCS's minimum debt coverage ratio (DCR) of 1.15:1 on all primary, hard debt after pass through is applied. Applicants must also demonstrate a sufficient cashflow with pass through applied over the term of the OAHTC restrictions. Projects exempt from pass through requirements still need to meet OAHTC underwriting standards otherwise applicable to the project. The calculated DCR can be found in the Operating Budget tab of the OHCS application in the "30 Year Operating Analysis" section.

Additional Program Requirements

I. LETTER OF INTENT FROM LENDER

A letter of intent from the lender must accompany the application and must clearly state the lender will participate in the OAHTC program. This letter should contain, at a minimum, (1) specific conditions pertaining to the project, (2) an estimated comparable market interest rate for the proposed loan, (3) the estimated reduced interest rate, (4) terms of the proposed loan, and (5) the estimated amount of interest savings that will be produced in return for the use of the tax credits.

J. FIRM COMMITMENT OF FINANCING AND LOAN TERMS

A firm commitment of financing from a qualified lender is required before a final commitment of tax credits in the form of a Certification will be made. Applicants should be prepared to provide the finalized pro forma pages to OHCS demonstrating pass-through compliance at time of certification. OHCS will supply the lender with a Certification document to complete prior to the closing of the loan to certify the lender's agreed participation in the OAHTC program and the terms of the loan being provided.

K. DECLARATION OF RESTRICTIVE COVENANTS

The borrower must execute restrictive covenants to be recorded at the time of the loan closing. A copy of this declaration will be made available upon request by OHCS. Please see Section F for applicable affordability requirements.

L. ONGOING REPORTING AND CARRYOVER OF CREDITS

The lender will be required to submit an annual report to OHCS by May 31st of each year. The report must be submitted on a form furnished by OHCS and signed by an officer of the lending institution.

Any tax credit otherwise allowable under ORS 317.097 that is not used by the taxpayer in a particular year may be carried forward and offset against the taxpayer's tax liability for the next four (4) succeeding tax years.

M. CHARGES

The lender will be required to submit a fee equal to five percent (5%) of the annual tax credits claimed for the prior calendar year which will be due and payable by May 31st of each year along with the annual report referenced in Section L above. A late fee of \$100 will be charged for each full month the annual report is delayed.

Pro Forma Guidance

N. PRO FORMA TABS WHERE OAHTC INFORMATION IS ENTERED

- Budget Sources – The applicant will put the permanent loan amount they are requesting be used to calculate the tax credit in the applicable Funding Request cell. The amount in the Funding Request cell should automatically populate into the Amount cell of the row labeled Permanent First Loan, Hard Debt (With-OAHTC). Applicant should fill in the rest of that row with all other applicable loan information (Bank/Lender/Investor, Interest Rate, Loan Term, Amortization Term). If the applicant also has a portion of their permanent loan that will not be utilizing OAHTC, that loan information (Bank/Lender/Investor, Amount, Interest Rate, Loan Term, and Am Term) should also be entered into the Financing Sources table next to Permanent First Loan, Hard Debt (Non-OAHTC).
- Rents and Incomes– The applicant will select “yes” in the IS THIS PROJECT APPLYING FOR OREGON AFFORDABLE HOUSING TAX CREDITS (OAHTCs)? dropdown menu in cell G15 to indicate the project is requesting OAHTC. As indicated upon selection, applicant should enter all applicable information for units *before* OAHTC passthrough would be applied.
- Operating Budget – this page auto-populates from the Budget Sources tab. See the “30 Year Operating Analysis”.
- OAHTC Calculation – This tab will also largely auto-populate from the Budget Sources tab. The applicant will need to indicate the number of years the credit will be taken and the interest rate prior to the reduction from OAHTC on the permanent loan. The applicant will also have to indicate the Actual OAHTC Annual Pass Through. This amount

should be equal to or greater than the amount listed in Required OAHTC Annual Pass Through.

- OAHTC Amortization Table – This tab also largely auto-populates based on information from other tabs. The only action required by the applicant on this page is to indicate the number of yearly payments and the start date of the loan in the applicable cells. The applicant may also indicate any extra payment above that required by the loan terms on each payment line.

Applying for OAHTC

O. HOW TO APPLY

OAHTC are included in many of OHCS's Notices of Funding Availability. Applicants can also request OAHTC through the Pool Application process. The OHCS website includes information about NOFAs as they are posted, and there is also an option to [sign up](#) for news and updates from OHCS that will include information about timing of these offerings.